



Kinder Morgan, Inc. (KMI)

Updated October 22nd, 2021 by Samuel Smith

Key Metrics

Current Price:	\$17.5	5 Year CAGR Estimate:	7.2%	Market Cap:	\$40 B
Fair Value Price:	\$20.3	5 Year Growth Estimate:	-1.2%	Ex-Dividend Date:	10/29/21
% Fair Value:	86%	5 Year Valuation Multiple Estimate:	3.1%	Dividend Payment Date:	11/15/21
Dividend Yield:	6.2%	5 Year Price Target	\$19	Years Of Dividend Growth:	4
Dividend Risk Score:	D	Retirement Suitability Score:	B	Last Dividend Increase:	3.9%

Overview & Current Events

Kinder Morgan, Inc., in its current form, conducted its initial public offering on 2/10/11. Today, the company is among the largest energy companies in the U.S. It is engaged in storage and transportation of oil and gas, and other products. It owns an interest in or operates approximately 83,000 miles of pipelines and 144 terminals. Its pipelines transport natural gas, refined petroleum products, crude oil, carbon dioxide (CO₂) and more. Kinder Morgan's transportation assets operate like a toll road, whereby the company receives a fee for its services, which generally avoids commodity price risk. Approximately 90% of Kinder Morgan's cash flow is fee-based.

On October 21st, 2021 Kinder Morgan reported its third-quarter financial results. The company reported Q3 Non-GAAP earnings-per-share of \$0.22 and GAAP earnings-per-share of \$0.22. The Third quarter's distributable cash flow fell to \$1.013 billion from \$1.085 billion in the year-ago period as a result of higher sustaining capital spending.

Meanwhile, the company's natural gas transport volumes grew 3% year-over-year and total refined product volumes increased 12% year-over-year. That said, Kinder Morgan expects to produce a net income of \$1.7B, distributable cash flow of \$5.4B, and adjusted EBITDA of \$7.9B this year, and aims to end 2021 with a 4.0x net debt-to-adjusted EBITDA ratio.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
DCFPS¹	\$1.42	\$1.55	\$1.65	\$2.00	\$2.14	\$2.02	\$2.00	\$2.12	\$2.20	\$2.02	\$2.39	\$2.25
DPS	\$0.74	\$1.34	\$1.56	\$1.70	\$1.93	\$0.50	\$0.50	\$0.72	\$1.00	\$1.05	\$1.08	\$1.15
Shares²	801	1036	1031	2125	2229	2230	2217	2216	2200	2200	2267	2200

Kinder Morgan's biggest growth catalysts for the future are new pipeline and terminals projects. Natural gas is a compelling growth catalyst and continued to drive growth in the first half of this year. Natural gas is rapidly replacing coal, which gives Kinder Morgan a major advantage. Unfortunately for them, new pipeline projects face severe political headwinds for the foreseeable future so growth for the company will likely slow significantly.

The company plans to continue investing in growth projects and joint ventures in 2021 and they expect to fully fund it with internally generated cash flow without the need to access capital markets. For 2021, we expect Kinder Morgan to generate DCF per share of approximately \$2.39. The company grew its dividend by 5% in 2020 and is targeting a \$1.08 per share dividend in 2021. We expect the company's DCF per share to decline slightly over the next half decade due to a reduction in growth projects and a declining outlook for hydrocarbons.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg P/DCF	22.7	22.8	21.8	21.2	7.0	10.3	9.0	8.8	9.0	4.9	7.3	8.5
Avg. Yld.	2.3%	3.8%	4.3%	4.0%	12.9%	2.4%	2.8%	3.9%	5.1%	10.6%	6.2%	6.0%

¹ DCFPS stands for Distributable Cash Flow Per Share.

² In millions



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Since Kinder Morgan, Inc. became a publicly traded stock its valuation has fluctuated wildly. During the heyday of the oil and gas industry of 2011-2014, Kinder Morgan held a very high valuation, but when the oil and gas markets entered a downturn and Kinder Morgan cut its dividend, the stock valuation dramatically contracted. If energy prices surge again for an extended period of time, Kinder Morgan stock could return to its 10-year average valuation.

However, a more conservative view values KMI at a price-to-DCF ratio of 8.5 given the current uncertain oil and gas pricing environment. This is a reasonable estimate of fair value, now that Kinder Morgan is on more solid financial ground and has returned to dividend growth. As a result, we expect multiple expansion over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	74.0%	86.5%	94.6%	85.0%	90.2%	24.8%	25.0%	34.0%	45.5%	52.0%	45.2%	51.1%

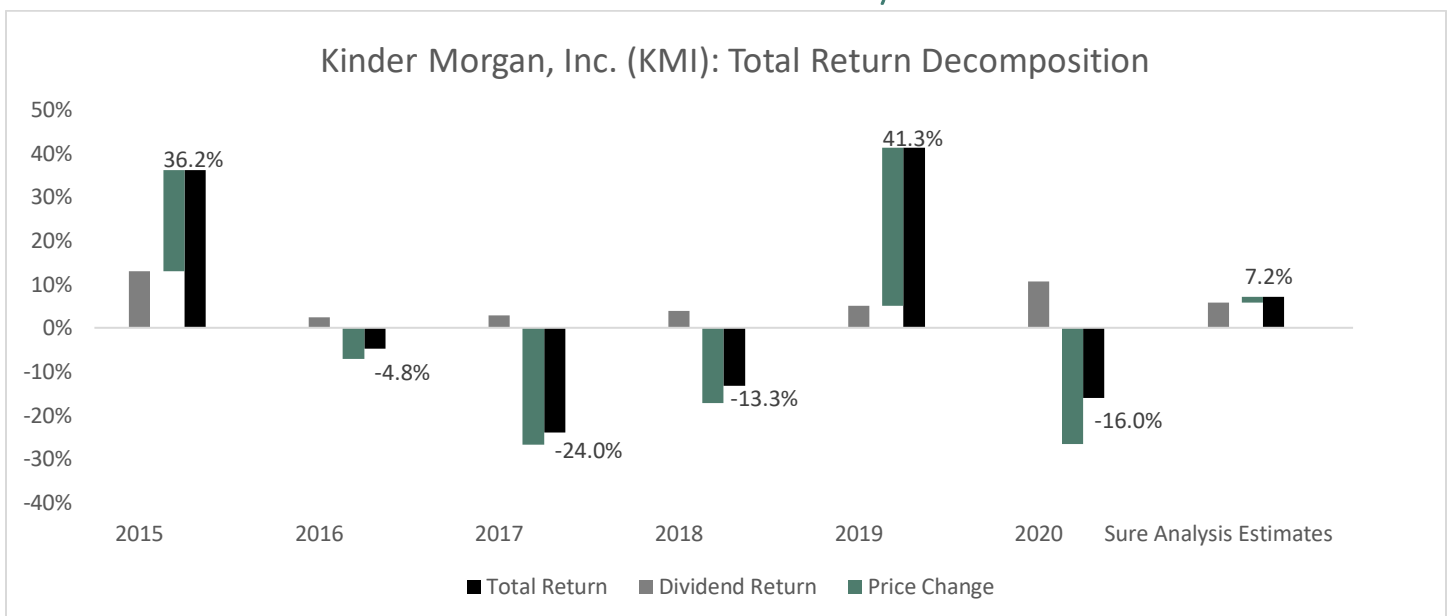
Kinder Morgan operates in the cyclical energy sector, but its business model still enables it to generate fairly stable cash flows. Kinder Morgan has a fairly low interest coverage ratio, and its elevated level of debt prompted the company's dividend cut in 2016. The good news is the new dividend payout level seems to be secure, and the company utilized the savings from the dividend reduction to pay down debt and improve its balance sheet. Kinder Morgan has been deleveraging and the company received a credit rating upgrade from Standard & Poor's and Moody's.

Kinder Morgan has significant network and economies of scale competitive advantages as one of the largest energy companies in the U.S. and the largest natural gas transporter, moving approximately 40% of the natural gas used in the U.S. It is also the largest independent transporter of petroleum products and carbon dioxide, and the largest independent terminals operator.

Final Thoughts & Recommendation

Kinder Morgan is coming off a multi-year turnaround. The company took on too much debt, which forced it to cut its dividend when capital markets closed off during the oil and gas industry downturn of 2014-2016. Now that the company is back on track, the stock is once again somewhat attractive for value and income. The combination of the 6.2% dividend yield and expected annual multiple expansion could result in annualized total returns of 7.2% per year through 2026, which earns Kinder Morgan a hold recommendation at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	7,943	9,973	14,070	16,226	14,403	13,058	13,705	14,144	13,209	11,700
Gross Profit	3,597	5,497	7,011	7,908	8,035	7,420	7,099	7,426	7,535	6,991
Gross Margin	45.3%	55.1%	49.8%	48.7%	55.8%	56.8%	51.8%	52.5%	57.0%	59.8%
SG&A Exp.	515	929	613	610	690	703	688	601	590	648
Operating Profit	1,417	2,580	3,891	4,723	4,513	3,924	3,541	3,961	3,931	3,492
Operating Margin	17.8%	25.9%	27.7%	29.1%	31.3%	30.1%	25.8%	28.0%	29.8%	29.8%
Net Profit	594	315	1,193	1,026	253	708	183	1,609	2,190	119
Net Margin	7.5%	3.2%	8.5%	6.3%	1.8%	5.4%	1.3%	11.4%	16.6%	1.0%
Free Cash Flow	1,166	786	753	850	1,417	1,876	1,413	2,139	2,478	2,843
Income Tax	361	139	742	648	564	917	1,938	587	926	481

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	30,717	68,245	75,185	83,049	84,104	80,305	79,055	78,866	74,157	71,973
Cash & Equivalents	411	714	598	315	229	684	264	3,280	185	1,184
Acc. Receivable	914	1,333	1,721	1,641	1,315	1,370	1,448	1,498	1,379	1,293
Inventories	172	374	430	459	407	357	424	385	371	348
Goodwill & Int.	6,259	24,803	26,942	26,956	27,341	25,470	25,261	24,845	24,127	22,304
Total Liabilities	22,149	44,145	46,900	48,623	48,701	45,503	43,931	44,335	40,071	40,135
Accounts Payable	728	1,248	1,676	1,588	1,192	1,257	1,340	1,337	914	837
Long-Term Debt	17,278	34,401	36,193	42,814	43,227	40,050	37,843	37,324	34,292	34,689
Total Equity	3,321	13,866	13,093	34,076	35,119	34,431	33,636	33,678	33,742	31,436
D/E Ratio	5.20	2.48	2.76	1.26	1.23	1.16	1.13	1.11	1.02	1.10

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	2.0%	0.6%	1.7%	1.3%	0.3%	0.9%	0.2%	2.0%	2.9%	0.2%
Return on Equity	17.6%	3.7%	8.9%	4.4%	0.7%	2.0%	0.5%	4.8%	6.5%	0.4%
ROIC	2.4%	0.7%	1.9%	1.4%	0.3%	0.9%	0.2%	2.2%	3.1%	0.2%
Shares Out.	801	1036	1031	2125	2229	2230	2217	2216	2200	2200
Revenue/Share	11.22	10.98	13.58	14.27	6.57	5.86	6.15	6.38	5.83	5.17
FCF/Share	1.65	0.87	0.73	0.75	0.65	0.84	0.63	0.97	1.09	1.26

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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